

# The State Lease/Purchase (COP) Program

Real Estate and Equipment Financing  
for State Agencies



Office of the State Treasurer

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NEW ISSUE, BOOK-ENTRY ONLY

Moody's Rating: Aa1  
(See "OTHER CERTIFICATE INFORMATION—Rating")



STATE OF WASHINGTON  
CERTIFICATES OF PARTICIPATION

\$75,190,000  
Series 2020D

(State and Local Agency Real and Personal Property)

Dated: Date of Initial Delivery

Due: See page ii

The State of Washington Certificates of Participation, Series 2020D (State and Local Agency Real and Personal Property) (the "Certificates"), are being executed and delivered by the Trustee (currently U.S. Bank National Association) pursuant to a Trust Agreement among the Trustee, the State of Washington (the "State"), and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates evidence and represent undivided proportionate interests in payments to be made by the State under Master Financing Agreements between the Corporation and the State (the "State Payments").

The interest represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2021. The principal represented by the Certificates is payable in the stated maturity amounts on each July 1 beginning July 1, 2021, as shown on page ii.

The Certificates are subject to optional prepayment prior to their Principal Payment Dates. The Certificates are subject to extraordinary mandatory prepayment upon the occurrence of certain events. In addition, the Certificates will be subject to mandatory sinking fund prepayment prior to their respective Principal Payment Dates if Term Certificates are specified by the successful bidder. See "DESCRIPTION OF THE CERTIFICATES—Prepayment."

The Certificates are issuable in fully registered form under a book-entry only system, initially registered in the name of Cede & Co. as nominee for The Depository Trust Company ("DTC"), New York, New York, which will serve as securities depository for the Certificates. The Certificates will be issued in denominations of \$5,000 or any integral multiple thereof within a single maturity. Principal and interest represented by the Certificates are payable to DTC by the Trustee, for subsequent disbursement by DTC to Beneficial Owners of the Certificates, as described under "DESCRIPTION OF THE CERTIFICATES—Book-Entry System" and Appendix E—DTC AND ITS BOOK-ENTRY SYSTEM.

The Certificates are being executed and delivered to finance and/or refinance the costs of acquisition, construction, and/or remodeling of certain real and personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies"), and to pay issuance costs with respect to the Certificates.

State Payments are made from amounts received by the State under Agency Financing Agreements between the State and the applicable Agency ("Agency Payments"). The Master Financing Agreements and the State Agency Agreements constitute limited obligations of the State payable solely from the sources and subject to the limitations therein and do not constitute a debt or a general obligation of the State or a pledge of the full faith and credit or taxing power of the State. The obligation of any State Agency to make its Agency Payments and the obligation of the State to make State Payments are subject to appropriation by the Legislature and to Executive Order emergency reduction by the Governor. A determination by the Legislature not to appropriate or an Executive Order reduction would not constitute an Event of Default under the Trust Agreement, the Master Financing Agreements, or any State Agency Financing Agreement. The obligation of each Local Agency to make its Agency Payments is a general obligation of that Local Agency secured by a pledge of its full faith and credit.

In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied after the issue date of the Certificates, interest represented by the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. Interest represented by the Certificates received by certain S corporations may be subject to tax, and interest represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest represented by the Certificates may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

The Certificates are offered when, as and if executed and delivered, subject to receipt of an approving opinion from Foster Garvey P.C., Seattle, Washington, Certificate Counsel to the State, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the State by Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, as Disclosure Counsel to the State.

It is anticipated that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Trustee on behalf of DTC by Fast Automated Securities Transfer, on or about October 29, 2020.



# What is the State Lease/Purchase Program?

- A cost-effective way for Washington State agencies to finance:
  - Equipment purchases such as vehicles, computers, and HVAC systems
  - Real estate projects, including property acquisition and construction of new facilities



**Helen Summers Building – Washington State Campus, Olympia WA**  
Photo source: PSFMechanical



**Washington State Patrol Vehicle**  
Photo source: WSP



## Lease/Purchase Structure – Certificates of Participation

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- The Agency enters into a financing contract (lease) with the Office of the State Treasurer (OST) via a nominal lessor (Washington Finance Officers Association – WFOA)
- OST pools the various lease agreements across all agencies, and packages them as a security called a Certificate of Participation (COP)
  - COP's are similar to municipal bonds in that they are structured with regular principal and interest payments and sold to investors
  - Investors that purchase the COP are guaranteed an income stream from the lease payments to be made by the agencies for the life of the loan
- After the individual lease expires, ownership of the financed piece of property is retained by the agency



# State Lease/Purchase Program Details

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- For real estate financing leases, agencies are required to obtain legislative authorization in the capital budget
- For equipment financing contracts, agencies must have operating revenues sufficient to make lease payments
- Minimum borrowing threshold of \$10,000 for each lease
- The length of each financing contract is based upon the useful life of the asset:
  - For real estate transactions, the maximum term is 25-years
  - For equipment, the maximum term is determined by the Office of Financial Management useful life schedule:

<https://www.ofm.wa.gov/sites/default/files/public/legacy/policy/30.50.htm>



## State Lease/Purchase Program Details Cont.

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- Property financed on a tax-exempt basis is subject to IRS tax law restrictions regarding private business use
  - Private business use may arise from leases, management contracts, research agreements and other contracts with the federal government, corporations, and other private or non-profit entities agreement
  - A taxable sale can be done when there is expected private use, which carries a higher interest rate
- Funds are generally available three times per year, in February, June and October
  - Some large leases may qualify for a special issuance that could fall outside the regular schedule
  - A state agency may also choose to participate in multiple issuances for one project if needed



## Benefits – Low Interest Rates

- The State Lease/Purchase Program allows participants access to the national tax-exempt market through a competitive bid process, regardless of the size of their financing contract
- By pooling multiple agency leases, participants are able to take advantage of the State's strong Aa1 credit rating to secure very low tax-exempt interest rates
  - See Appendix B for most recent rating report

STATE  
*Actual Interest Rates for Most Recent Sale  
as of 6/2/2021*

<i>Term</i>	<i>Equipment*</i>	<i>Real Estate*</i>
2 Years	0.21%	0.21%
3 Years	0.29%	
4 Years	0.39%	
7 Years	0.69%	
10 Years	0.95%	0.89%
20 Years		2.13%

*\*Interest rates shown above include all financing costs. Past interest rates do not predict future interest rates. Actual interest rates are determined by the competitive bids received on the date of sale.*



## Benefits – Administration

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- The State Lease/Purchase Program is user friendly, as OST manages all technical aspects of the program, including:
  - Issuance
  - General administration
  - IRS tax law compliance
  - Continuing disclosure
- To reduce costs and increase efficiency, the program uses standardized documents and a set repayment schedule
  - Lease payments are due on June 1 and December 1
- After providing necessary materials, participating agencies can be reimbursed as soon as funds are available





# Timeline

## Preliminary State Lease/Purchase Program Timeline \*

Funds Available In	Real Estate NOI Cut-Off	Equip NOI and All Document Cut-Off	Real Estate Document Cut-Off	Sale Date	Funds Available	First Payment Due
October '21	July 7, 2021	July 23, 2021	Late August 2021	September 2021	October, 2021	December 1, 2021
February '22	November 2, 2021	November 15, 2021	Early January 2022	February 2022	February 2022	June 1, 2022
June '22	March 1, 2022	March 18, 2022	Late April 2022	June 2022	June 2022	December 1, 2022

*\*All dates are tentative and subject to change; dates for future sales will be established after the current sale is completed*

- OST plans to go market three times in 2021, with funds expected to be available in February, June and October
  - OST has the ability to issue additional series if the need arises
- Funds are available approximately two weeks after the sale date
- Note for Real Estate projects, a Construction Contract or Purchase and Sale Agreement must be in place a few weeks prior to the sale date



# Lease/Purchase Process

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1. Legislative  
Authorization (*for Real  
Estate Leases Only*)

2. Notice of Intent

3. Financing  
Documents

4. Reimbursement



# Application Process

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## 1. Legislative Authorization

- Financing contracts for **real estate** projects must be authorized by the Legislature, typically in the capital budget
- For **equipment** purchases, it is expected the agency has sufficient current revenue to meet the payment obligations
  - If current revenues does are not sufficient, the Agency may require legislative approval if necessary



# Application Process

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## 2. Notice of Intent

- The Notice of Intent (NOI) is a standardized, non-binding agreement that notifies OST of the agency's intent to finance real estate or equipment through the COP Program
- Reimbursements can only be provided for purchases made no earlier than 60 days prior to submittal of the NOI
  - Some preliminary fees for real estate projects (such as design) can be reimbursed outside of 60-day window



# Application Process

## 3. Financing Documents

- For **equipment** financing contracts, a signed, original, single sided copy of the financing contract and personal property certificate, with corresponding paid invoice(s), and proof of payment(s) are to be submitted no later than the document due date
  - The financing document packet is available on our website; includes NOI, Financing Contract, Certificate of Designated Agency Representatives (if necessary), Personal Property Certificate
- For **real estate** financing leases, OST requires two original, single sided, signed and notarized copies of the Site Lease (and Memorandum), Financing Lease (and Memorandum), and Tax Certificate, to be submitted no later than the document due date
  - Documents for Real Estate are prepared by OST and are not available online
  - The due date for Real Estate documents is different than equipment
- A full list of Documents can be seen in Appendix A
- Financing documents can be signed electronically. OST Drafted Documents that don't require notarization may be signed electronically if they originate through OST's Docusign account.



# Application Process

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## 4. Reimbursement

- The agency must submit the following to be reimbursed:
  - Personal Property Certificate (Equipment only)
  - Request for Release of Proceeds (Real Estate only)
  - Invoices
  - Proof of Payment
- For **equipment** purchases, property must be acquired prior to the sale, and the reimbursement documents are submitted with the other Financing Documents
- For **Real Estate construction** projects, can request reimbursement as the project progresses and funds are spent
- For **Real Estate acquisition**, the agency must hold title to the property prior to the financing



# Electronic Signatures

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- The use of electronic signatures can be used on any OST document that does not require notarization (notarized documents require “wet” signatures)
- If the agency wants to use electronic signatures, the document must come from OST’s DocuSign account
- The agency should notify OST of it’s desire to use electronic signatures, and provide OST with the completed unsigned document to route for signature, along with the email address(es) of the authorized signor(s)



# Appendix A





## Documents

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1. Notice of Intent
2. Project Overview (Real Estate only)
3. Construction Contract/Purchase and Sale Agreement (Real Estate only)
4. State Agency Financing Lease/Contract
5. Memorandum of Financing Lease (Real Estate only)
6. State agency Site Lease (Real Estate only)
7. Memorandum of Site Lease (Real Estate only)
8. State Agency Tax Certificate (Real Estate only)
9. Certificate Designating Authorized Agency Representative
10. Personal Property Certificate(s) (Equipment only)
11. Request of Release of Proceeds (Real Estate only)
12. Invoice(s)/Proof of payment(s)
13. Evidence of Insurance



# Appendix B

**Rating Action: Moody's assigns Aa1 to Washington State COPs 2021A; outlook stable**

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22 Jan 2021

New York, January 22, 2021 – Moody's Investors Service has assigned a Aa1 rating to the State of Washington's \$14,935,000 Certificates of Participation, Series 2021A (State and Local Agency Real and Personal Property). Following the issuance of the Series 2021A COPs, the state will have approximately \$934 million similarly-secured COPs outstanding, all rated Aa1. The outlook is stable.

**RATINGS RATIONALE**

The Aa1 rating on the COPs, one notch below the Aaa rating on the state's general obligation bonds, reflects the essential nature of the property being financed and/or refinanced, the moderate legal structure and subject-to-appropriation nature of the state's payment obligations, active administration of the financing program by the state treasurer's office, and the state's established track record of making appropriation-backed payments under a variety of financing programs.

The Aaa rating on the state's general obligation bonds reflects its sizable financial reserves entering the current downturn, the exceptional growth of the state's economy in recent years driven largely by the technology sector in the Seattle (Aaa stable) metro area, and the consequent economic diversification lessening dependence on aircraft manufacturing by The Boeing Company (Baa2 negative). Additional strengths include above-average wealth and income levels, and strong fiscal governance practices. While the state's debt levels are above average, they have been declining relative to the 50-state medians and the state's debt and pension liabilities combined, as well as its fixed costs, are comparable to medians. Frequent voter initiative activity adds budget challenges, but the legislature has broad authority to suspend voter-enacted statutes and a history of responding effectively to maintain budget balance.

Like all US states, Washington has faced a significant shortfall in tax revenues in fiscal 2020 and 2021 as a result of the coronavirus pandemic. Moody's expects that the shortfall will be addressed by a combination of spending cuts, measured drawdowns of reserves, and federal assistance.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the State of Washington at this time.

**RATING OUTLOOK**

Washington's outlook is stable, reflecting the positive underlying fundamentals of its economy, sizable reserves entering the current downturn, strong governance practices and manageable long-term liabilities. We expect that the state will continue to address budget gaps that emerge, as it has in the past.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING**

- Not applicable.

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING**

- A sustained or structural weakening of the state's economy.
- Protracted structural budget imbalance and/or a shift to reliance on one-time budget solutions.
- A significant deterioration of the state's cash position.

Payments made by the local agencies are secured by the full faith and credit of the local agencies, effectively general obligation, limited tax obligations. In the event any local agency fails to make its scheduled payment, the state treasurer is obligated to make the payment on behalf of the local agency using state funds; such state payments, if necessary, are subject to appropriation by the legislature and executive order reduction by the governor. The treasurer is further obligated to withhold an amount equal to the payment advance from the local agency's share of state aid, to the extent legally permissible. No local agency has ever failed to make a

payment obligation related to state-issued COPs.

#### USE OF PROCEEDS

Proceeds of the Series 2021A COPs will be used to finance the cost of acquisition and construction of real and personal property for participating state and local agencies.

#### PROFILE

Washington is the thirteenth largest state by population, at 7.6 million. Its state gross domestic product is tenth largest, at \$599.6 billion. The population is relatively wealthy, with per capita personal income equal to 114.5% of the US level and a poverty rate in the bottom third among states.

#### METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1102364](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1102364) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

This rating is solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website [www.moody.com](http://www.moody.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1243406](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1243406) .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on [www.moody's.com](http://www.moody's.com).

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